



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of)	No. G07-203
)	
The Financial Examination of)	FINDINGS, CONCLUSIONS,
ASURIS NORTHWEST HEALTH)	AND ORDER ADOPTING REPORT
)	OF EXAMINATION

A Registered Health Care Service Contractor.

BACKGROUND

An examination of the financial condition of **ASURIS NORTHWEST HEALTH** (the Company) as of December 31, 2005, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on May 22, 2007. The Company's response to the report is attached to this order only for the purpose of a more convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 16 of the report.

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **ASURIS NORTHWEST HEALTH** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are appropriate responses to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

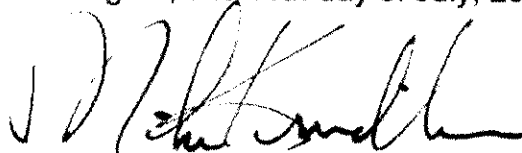
The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-5.

1. The Company is ordered to file an accurate statement of its financial condition, transactions, and affairs in compliance with RCW 48.43.097, which requires the filing of its financial statements in accordance with the NAIC AP&P Manual; and with WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the NAIC AP&P Manual. Instruction 1, Examination Report, page 3.
2. The Company is ordered to file its SAO pursuant to RCW 48.43.097 and WAC 284-07-060(2)(a), which require health care service contractors to file an SAO and financial statement in accordance with the AP&P Manual and the NAIC Annual Statement Instructions. Instruction 2, Examination Report, page 3.
3. The Company is ordered to file amendments to its Plan and Agreement of Affiliation or file a new agreement that addresses specific methodology or basis used on how inter-company expenditures, fiduciary responsibilities, and type of service allocated across Plans and between Plans, TRG and other affiliates with the OIC pursuant to RCW 48.31C.050 in compliance with SSAP No. 70, Paragraph 8. The agreement should include additional documentation, which explicitly states the services, responsibilities, and considerations under the performance of the contract. Instruction 3, Examination Report, page 4.
4. The Company is ordered to calculate all future premium taxes based on written premiums in accordance with RCW 48.14.0201(2) and the premium tax return instructions. Instruction 4, Examination Report, page 4.

5. The Company is ordered to allocate internal investment expenses into the proper categories in Column 4 pursuant to RCW 48.43.097 which requires the filing of its financial statement in accordance with the AP&P Manual; and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P Manual. Instruction 5, Examination Report, page 4.
6. It is ordered that the Company consider establishing procedures and implementing controls to ensure that all future information transmitted to the 401K Plan trustee is accurate and complete. Comments and Recommendations 1, Examination Report, page 5.

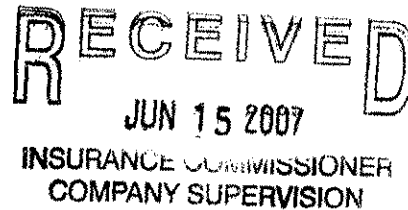
IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 11th day of July, 2007.

A handwritten signature in black ink, appearing to read "Mike Kreidler", is written over a horizontal line.

MIKE KREIDLER
Insurance Commissioner

June 14, 2007



James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
P O Box 40255
Olympia, WA 98504-0255

Re: Asuris Northwest Health – Report of Examination as of December 31, 2005

Dear Mr. Odiorne,

Enclosed please find for your consideration, our responses to be included in the final report of examination for Asuris Northwest Health. We appreciate the opportunity to respond and comment on the report.

Instructions

1. NAIC Annual Statement Errors and Misclassifications

a) Reclassification of Unearned Premium to Advance Premium Received in Advance.

The Company misclassified "Premiums received in advance" in the amount of \$403,184 as "Unearned premium reserves" on Part 2D, Line 1 of the Underwriting and Investment Exhibit. In accordance with SSAP No. 54, unearned premiums are policy reserves and shall be required for all accident and health contracts for which premiums have been reported for a period beyond the date of valuation other than premiums that have been received prior to the valuation date but are due on or after the valuation date. (See examination reclassification No.1, debiting "Aggregate health policy reserves", and crediting "Premiums received in advance" in the amount of \$403,184.)

Company Response:

The Company agrees with this finding. Beginning in 2007, the Company will reflect the premiums in the proper classification, per SSAP No. 54.

b) Retrospectively Rated Contract Disclosure

SSAP No.66, Paragraph 12 requires Annual Statement disclosure of premium amounts subject to retrospective rating. The financial statements were correct except for the amounts disclosed in Note 24.B. of the Notes to the Financial Statements. The retrospective premiums should have been \$12,197,623 and \$10,397,406 for 2005 and 2004 respectively, instead of the reported amounts of \$11,939,556 and \$11,748,163.

Company Response:

The Company agrees with this finding. The Company has taken corrective action and began reporting these correctly in its 2006 Annual Statement.

c) Reserve for Rate Credit or Experience Rating Refunds Amounts

The reserve for rate credit or experience rating refunds as reported in the Underwriting and Investment Exhibit Part 2D – Aggregate Reserve for Accident and Health Contract Only, in the 2005 Annual Statement (page 13), is incorrect. The Company reported a negative figure in

the amount of \$743,566, which represents an experience rating refund asset. In a review of the Company's accounting records it was determined that the \$743,566, is a positive amount which indicates a liability.

Company Response:

The Company agrees with this finding. The Company will accurately record the experience rated refund in future filings. This was corrected beginning with the 1st quarter 2006 statutory filing.

d) Retirement Plan Disclosure

SSAP No.14, Paragraph 15, requires Annual Statement disclosures that employees participated in a defined contribution plan sponsored by the holding company. In Note 12, Notes to the Financial Statements, the Company failed to disclose its 401(k) Plan, a defined contribution plan sponsored by its parent, The Regence Group (TRG). The fact that the Company has no legal obligation for the parent sponsored plan, the amount of the benefit expense incurred and the allocation methodology utilized by TRG should also be disclosed.

Under Note 12D, Notes to the Financial Statement, the Company disclosed the benefit expense incurred for the Post Retirement Health Care and Life Insurance Plans, but failed to disclose, as required by SSAP No. 89, Paragraph 15, the allocation methodology utilized by TRG and the fact that it has no legal obligation for the TRG sponsored pension plans.

Company Response:

The Company agrees with these findings. The disclosure for the Company's participation in the The Regence Group (TRG) 401k plan was mistakenly excluded from the Annual Statement footnotes. However, the disclosure of the plan and the Company's expenses were included in the Annual Audited Statutory Statements. Beginning in 2007, the Company will revise its filings to include the appropriate disclosures in all documents.

The disclosure for the Company's participation in the Postretirement Health Care and Life Insurance benefit plans did not include the expense allocation methodology or a statement regarding legal obligations. Legal obligations were disclosed in the Annual Audited Statutory Statement. Beginning in 2007, the Company will revise its filings to include the appropriate disclosures in all documents.

e) Commission Expenses Not Accrued

The Company did not accrue commission expenses associated with uncollected premiums and agents' balances in the course of collection. SSAP No. 54, Paragraph 12, requires that the amount of unpaid commissions, and the cost of collection associated with due and unpaid premiums, be carried as offsetting liabilities (of uncollected premium). It was determined the amount was not material.

Company Response:

The Company agrees with this finding. Currently, the company does not have a systems process which will allow it to report commissions payable related to premiums receivable. However, the Company will review the recommendation and will work to formulate a process to more accurately report these liabilities beginning in 2007, in accordance with SSAP No. 54, paragraph 12.

2. Statement of Actuarial Opinion

The 2005 Statement of Actuarial Opinion (SAO), prepared by its consulting actuary, failed to report the experience rated refund liability. The Company reported an experience rated refund liability in the Underwriting and Investment Exhibit, Part 1, Column 1, Line 4 of the 2005 NAIC Annual Statement in the amount of \$743,566.

The Company is instructed to file its SAO pursuant to RCW 48.43.097 and WAC 284-07-060(2)(a), which require health care service contractors to file an SAO and financial statement in accordance with the AP&P Manual and the NAIC Annual Statement Instructions.

Company Response:

The Company agrees with the above exception. An amended filing of the SAO was filed on February 20, 2007.

3. Inter-company Transactions and Agreements

From the information contained in the Plan and Agreement of Affiliation (PAA). The examination team was not able to determine the expense allocation methodologies or the types of services at either the Parent TRG level, Plan level or affiliate inter-company level. We were not able to determine in detail how the fiduciary and other responsibilities for each company flowed across affiliate lines, the services rendered and allocation bases.

An amended or new agreement should address and correct the deficiencies noted above to maintain compliance with RCW 48.31C.050(1)(d) which states,

"The books, accounts and records of each party to all such transactions must be so maintained as to clearly and accurately disclose the nature and details of the transactions, including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties..."

The Company is instructed to file amendments to its Plan and Agreement of Affiliation or file a new agreement which addresses areas noted above with the OIC pursuant to RCW 48.31.C.050 in compliance with SSAP No. 70, paragraph 8. The agreement should include additional documentation, which explicitly states the services, responsibilities, and considerations under the performance of the contract.

Company Response:

The Company agrees with this finding. Regence will execute a formal cost-sharing agreement as recommended.

The cost sharing arrangement between The Regence Group and its holding company members has been handled consistently with the cost sharing criteria in the Management and Administrative Services Agreement between The Regence Group and Regence BlueShield Idaho, Inc. Such cost sharing was permitted under Item B.6. in the Plan and Agreement of Affiliation between The Regence Group and the Company. Nonetheless, The Regence Group will execute an agreement in 2007 reiterating and formalizing existing cost sharing criteria.

4. Premium Tax Base

In computing its premium tax payment, the Company has been using earned premiums instead of written premiums, as its premium tax base. This has led to an underpayment of premium taxes paid during the five year examination period of \$12,616. No examination adjustment is recommended due to immateriality.

The Company is instructed to calculate all future premium taxes based on written premiums in accordance with RCW 48.14.0201(2) and the premium tax return instructions.

Company Response:

The Company agrees with this finding. In due course, written and earned premiums will be the same. Beginning with the 1st quarter 2006 filing, premium taxes were based on written premiums.

5. Investment Expense Allocation – Underwriting and Investment Exhibit

In Column 4 –Investment Expenses of the Underwriting and Investment Exhibit, Part 3-Analysis of Expenses, of the 2005 NAIC Annual Statement, the Company did not allocate investment expenses incurred internally. Only external investment expenses billed by outside parties were reported in Column 4. The internal investment expenses were misclassified as General Administration Expenses in Column 3.

SSAP No. 70, Paragraph 9, states, "Any basis adopted to apportion expenses shall be the one which would yield the most accurate results and may result from special studies of employee activities, salary ratios, premium ratios or similar analyses." In addition, SSAP No. 70 Paragraph 5 states that the allocation of expenses for health insurers should be based on a method that yields the most accurate results.

The Company is instructed to allocate internal investment expenses into the proper categories in Column 4 pursuant to RCW 48.43.097 which requires the filing of its financial statement in accordance with the AP&P Manual; and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P Manual.

Company Response:

The Company agrees with this finding. Beginning in 2007, the Company will review and take the steps necessary to collect and report internal costs associated with investment activity in accordance with SSAP No. 70.

Comments and Recommendations

401 (k) Plan

Payroll data transmitted to the Company's 401(k) Plan trustee was incomplete, thus the non-discrimination test (NDT) performed by the Plan trustee was invalid. The NDT is an important test that a qualified retirement plan must pass in order to qualify for favorable tax accounting treatment. Without a valid NDT, the 401(k) Plan is potentially at risk of losing its qualified status since plan non-compliance issues may not be detected, and rectified, in a timely manner. The Company later was able to identify the errors and the Plan's status was not adversely affected.

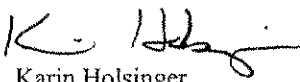
It is recommended that the Company establish procedures and implement controls to ensure that all future information transmitted to the Plan trustee is accurate and complete.

Company Response:

The Company agrees with this finding. While the amounts were de minimis and the deferrals and contributions were transmitted and posted on a timely basis, corrective measures have been implemented to ensure that year-end contributions and deferrals are identified and designated to the appropriate plan year.

Please feel free to contact me at (503) 226-5922 with any further questions or concerns that you have regarding our responses.

Sincerely,



Karin Holsinger

Director, Financial Accounting Services